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FM AMEMBASSY SEOUL  
TO RUEHC/SECSTATE WASHDC 7883  
INFO RUEHMO/AMEMBASSY MOSCOW 8403  
RUEHBJ/AMEMBASSY BEIJING 3654  
RUEHKO/AMEMBASSY TOKYO 3790  
RUEHUM/AMEMBASSY ULAANBAATAR 1614  
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RUEHFR/AMEMBASSY PARIS 1580  
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RUEHVK/AMCONSUL VLADIVOSTOK 1358  
RHEHNSC/NSC WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC  
RUCPDO/DEPT OF COMMERCE WASHDC 1747  
RUEKJCS/SECDEF WASHINGTON DC//ISA/DSCA/DUSDAT//  
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SIPDIS

STATE FOR EEB/ESC/IEC/ENR, INR AND EAP/K  
STATE ALSO FOR IO/EDA - DE OTALVARO  
NSC FOR TONG  
DOE FOR INTERNATIONAL AND FE  
USDOC FOR 4440/MAC/EAP/OPB/ITA/TA  
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SENSITIVE  
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E.O. 12958: N/A  
TAGS: [ENRG](#) [PREL](#) [RS](#) [KN](#) [KS](#)  
SUBJECT: KOREA AND RUSSIA TO STUDY POSSIBLE GAS PIPELINE

[1](#)1. (U) SENSITIVE BUT UNCLASSIFIED.

SUMMARY  
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[1](#)2. (U) The governments of Korea and Russia agreed during a December 11-12 meeting in Moscow to jointly conduct a feasibility study for a possible gas pipeline extending from the Russian Far East (RFE) to South Korea. According to the Ministry of Commerce, Industry and Energy (MOCIE), the study is very preliminary, and does not reflect a determination by either side that a pipeline should be constructed. Three possible pipeline routes will be studied -- through the Sea of Japan/East Sea, through North Korea, and through China and the Yellow Sea/West Sea. Meanwhile, Korea is set to begin importing 1.5 million tons per year of liquefied natural gas (LNG) from the Sakhalin II project in 2008.

[1](#)3. (SBU) Korea remains dependent on foreign suppliers for more than 96 percent of its primary energy consumption. Its drive to pull all available bilateral (and also multilateral -- see septel) levers to make Russia a major and secure source of supply was underscored in one of the first acts of Korea's new President-elect, who met with the Russian Ambassador two days after his election and publicly proclaimed his support for Russo-Korean energy cooperation. Russia, however, seems in no hurry to fulfill Korean hopes. Even in the best of cases, a pipeline connecting Russia to South Korea is unlikely to be built before 2020. End summary.

CONSIDERING OPTIONS ON ADDITIONAL GAS SUPPLIES  
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[1](#)4. (U) The bilateral Korea-Russia Natural Resources Cooperation Council met in Moscow December 11-12. This was the eighth meeting of the council, which was founded in 2000. The Korean delegation was led by Ahn Cheol-shik, Director General for Energy Industry at the Ministry of Commerce, Industry and Energy (MOCIE), and included representatives of the Korea Gas Corporation (KOGAS), Korea Electric Power Corporation (KEPCO), Korea Resources Corporation (KORES) and

the Korea Energy Economics Institute (KEEI). The Russian delegation was led by Deputy Minister of Industry and Energy Anatoliy Yanovskiy.

¶15. (U) According to a December 13 MOCIE press release, the two sides agreed to conduct a joint study of the economic and technical feasibility of a gas pipeline to provide Russian gas to Korea. The study will be conducted by Russia's Gazprom and the state-run Korea Gas Corporation (KOGAS).

¶16. (SBU) The Director of MOCIE's Gas Industry Division, Cheong Seung-il, explained to ESTH Chief on December 18 that Korea and Russia had signed a Memorandum of Understanding (MOU) in 2006 providing for delivery to Korea of 1.5 million tons of LNG per year from the Sakhalin II project. The contract covers the period 2008-2028. (Note: 1.5 million metric tons equates to about 6 percent of Korea's annual imports of around 26 million metric tons of LNG. End note.) Cheong observed that, due to rising demand from industry and the power-generation sector, additional supplies will be needed in 5-10 years, and Russia is an obvious potential source. No decision has been yet made, he said, whether the additional supplies should be LNG or piped gas. The planned feasibility study will help to arrive at a determination.

¶17. (SBU) The timing for a joint study appears to be auspicious, Cheong indicated, because Russia has completed plans for upgrading and extending the links in its Unified Gas Supply System (UGSS). Cheong recalled that Korea, China and Russia had undertaken an earlier feasibility study on a proposed pipeline route from the Irkutsk gas field beginning in 1999, but the project was scrapped by Gazprom.

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¶18. (SBU) The joint Gazprom/KOGAS study will examine three options for pipelines to bring gas to South Korea. One route would be under the Sea of Japan/East Sea. The second, and cheapest, would be overland through North Korea. A third would be through China and under the Yellow Sea/West Sea.

¶19. (SBU) The timing of a potential pipeline development is unclear. From Korea's point of view, the sooner the better to get additional sources of supply. Korea asked Russia for both a timetable and estimates of the potential volume of supply, but did not get clear answers. The issue of prices has not yet been broached. Cheong noted that, with Vladivostok scheduled to host the APEC summit in 2012, Russia may focus on completing its domestic gas pipelines by that date. A KOGAS official opined to an ECON FSN that a pipeline to Korea, if it eventuates, would likely not be in place before ¶2020.

¶110. (SBU) An alternative to piped gas would be additional LNG supplies. Cheong commented that it remains unclear how Russia will use the gas from Sakhalin I and Sakhalin III. Currently it appears likely that gas from Sakhalin I will be used for domestic consumption. Gas from Sakhalin III may be available for export, he said, but indicated it is not certain whether Korea would be one of the recipients.

¶111. (SBU) Cheong added that the disposition of one of Sakhalin III's four blocks, the Kirinskiy Block, remains uncertain. Korea offered to participate in developing it, but believes that Russia sees it as a strategic asset and may keep it for development by itself.

OIL AND PETROCHEMICALS ALSO DISCUSSED  
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¶112. (U) A Korean consortium, led by state-run Korea National Oil Corporation (KNOC) and comprised of private companies including GS-Caltex, SK, Daewoo International, Kumho Petrochemical and Hyundai, has been participating with Russia's Rosneft in the exploration of the oil fields of West Kamchatka. The Korean consortium holds a 40 percent state in the field, which has reserves estimated at 10.3 billion barrels. The two sides agreed during the Council meeting to drill two exploratory holes in West Kamchatka during 2008.

¶13. (U) Russia invited Korean investment in Eastern Siberia to capture and use ethane and helium, byproducts of gas production. MOCIE will invite the Korean private sector to investigate that possibility.

PRESIDENT-ELECT EXPRESSES KOREAN HOPES  
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¶14. (U) Korea's hopes for energy cooperation with Russia were underscored when, just two days after his election sweep, President-elect Lee Myung-bak met with the Russian Ambassador. According to news reports, Lee expressed Korea's strong interest in joint energy development projects in Eastern Siberia, and alluded to the possibility of employing North Korean labor. "I want this project to start in the early stage of my term," Lee reportedly said.

COMMENT  
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¶15. (SBU) Korea remains dependent on foreign sources for more than 96 percent of its primary energy demand. It is therefore no surprise that Korea pulls every lever, whether bilateral or multilateral, in the hope of securing new sources of supply to reduce its vulnerability to instability in the Middle East. It is by no means clear that Russia sees a significant short-term interest in fulfilling Korea's hopes. Talk of a gas pipeline reaching all

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the way to South Korea will never die, but even in the best case it will be many years before one materializes. End comment.

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